



FINANCIAL REPORTING COUNCIL

The UK's Independent Accounting, Auditing & Actuarial Standards Regulator

PREPARERS LEVY 2009/10

UK PRIVATE ENTITIES
(Turnover £1bn or greater)

FACT SHEET

The Financial Reporting Council is the UK's independent regulator responsible for promoting confidence in corporate reporting and governance.

The FRC has a range of statutory powers under UK Company Law. The FRC sets, monitors and enforces compliance with accounting, auditing standards and actuarial. Details of the FRC's work are available on our website at www.frc.org.uk.

This fact sheet provides an overview of the background and basis for the Preparers Levy, the functions of the FRC, the benefits derived from the FRC by private entities and the calculation of the levy.

Background to the Preparers Levy

- The FRC collects an annual levy from preparers of accounts, being the Preparers Levy (formally known as the Business Levy) which forms part of the FRC's funding;
- Since the FRC was formed in 1990, the Business Levy has applied to companies with a listing on the London Stock Exchange's Main Market;
- Following a public consultation during July 2008, the levy was extended to UK private entities as these entities and their auditors are subject to the accounting and auditing standards which the FRC sets, monitors and enforces;
- A levy is collected from publicly listed companies, AIM and PLUS listed companies, large private entities, pension schemes, insurance companies and public sector organisations based on the financial accounts that they prepare;
- Private entities are given a substantial discount of 50% on the minimum levy and market capitalisation-based rates applied to the London Stock Exchange's Main Market companies. This discount takes into account that some of our activities do not apply to UK AIM and PLUS Markets companies.¹

¹ For example our work on the Combined Code on Corporate Governance and the implementation of the requirements of the EU Statutory Audit Directive relating to the registration and inspection of overseas auditors.

Basis for the Preparers Levy

- UK private entities and their auditors are subject to the accounting and auditing standards which the FRC sets, monitors and enforces;
- The FRC has a number of accounting and auditing regulatory duties set by statute;
- Section 17 of the Companies (Audit, Investigations and Community Enterprise) Act 2004, as amended by Part 44 of the Companies Act 2006, confers a power on the Secretary of State to make regulations enabling the FRC to recover its costs through a levy. Thus far, this power has not been exercised.
- The FRC's responsibilities are funded through non-statutory arrangements on the basis of an understanding with the groups subject to the levy. However, should a voluntary approach prove unsustainable, the FRC will formally request that the statutory power be invoked.

The FRC's Functions and Operating Bodies

The FRC's standard-setting, monitoring and enforcement functions are principally carried out through six Operating Bodies.

Five of our six Operating Bodies carry out responsibilities affecting accounting and auditing applying to large private entities:

1. **The Accounting Standards Board** issues accounting standards for the UK. With the move to International Financial Reporting Standards (IFRS), the Board is leading the UK's interest in the International Accounting Standards Board (IASB) to ensure that the standards set are principles-based and cost-effective.
2. **The Financial Reporting Review Panel** reviews company accounts for compliance with the legislation and accounting standards. The Panel reviews the annual accounts of some 300 companies a year. Its role is to investigate cases where, in the words of the Companies Act, 'it appears to the Panel that there is, or may be, a question whether accounts comply with the requirements of this Act'.
3. **The Auditing Practices Board** issues standards and guidance for auditing, the work of reporting accountants in connection with investment circulars, and for auditors' integrity, objectivity and independence. It is also actively influences the International Auditing and Assurance Standards Board in setting International Standards on Auditing.
4. **The Professional Oversight Board** provides statutory oversight of the UK auditing profession regulation by recognising supervisory and qualifying bodies.
5. **The Accountancy and Actuarial Discipline Board** is the independent investigative and disciplinary body for accountants and actuaries in the UK. It is responsible for operating and administering independent disciplinary schemes for public interest cases involving members of the accountancy profession.

Our role in defining good practice in corporate governance through the Combined Code applies to UK companies with a primary listing in the UK, yet we are aware that a number of other companies adopt the Code as a part of their commitment to good governance and business commerce.

The Benefits Provided by the FRC to Private Entities

Our aim is to promote confidence in corporate reporting and governance in the UK.

In pursuit of this aim, we seek the following outcomes in relation to accounting and auditing:

- Corporate reports containing information which is relevant, reliable, understandable and comparable, and are useful for decision-making, including stewardship decisions;

- Users of audit reports placing a high degree of reliance on the audit opinion, including whether financial statements show a true and fair view;
- Clients and employers of professionally qualified accountants, actuaries and of accountancy and actuarial firms relying on them to act with integrity and competence, whilst having regard to the public interest.

Confidence in corporate reporting and governance is a fundamental prerequisite for the effective functioning of the economy and financial markets. The FRC's aim is to strengthen that confidence by promoting high-quality corporate reporting, auditing, actuarial practice and corporate governance, and by promoting the integrity, competence and transparency of the accountancy and actuarial professions.

Our work provides significant benefits to UK companies, including those traded on AIM and PLUS Markets, in terms of the widespread confidence in the accounting and auditing requirements which they are required to meet.

We are committed to the Better Regulation Commission principles of proportionality, targeting, consistency, transparency and accountability. We are clear that no system of regulation can eliminate the possibility of corporate reporting or governance failures; any attempt to achieve zero failure would destroy wealth rather than facilitate its creation.

Calculation of the Preparers Levy

The 2009/10 levy rates for individual companies comprises a minimum levy of £980 (£490 for UK AIM and PLUS Markets companies) and further amounts payable by companies above a certain threshold, with the rate per £m declining in five levy size bands.

The minimum levy and rates for larger companies is calculated based on the number of listed or quoted companies and their market capitalisations as at 30 November in the year preceding the year to which the levy relates (i.e. the levy for 2009/10 is based on the data as at 30 November 2008).

For companies which joined the market after 30 November, their latest market capitalisation figures are used for calculating the levy.

Contact Us

If you have a question about the **method of payment** please contact the Levy Collection Team in Mouchel Business Services, who are administering collection of the levy on FRC@mouchel-lincoln.com (telephone 01522 836860)

If you have a query about the **calculation of the levy** for your company, please e-mail the FRC Finance Officer, Tulsee Rughoobur on t.rughoobur@frc.org.uk (telephone 020 7492 2338).

If you have **any other query** in relation to the levy, please e-mail the FRC Policy and Planning Manager, David Andrews, on plan@frc.org.uk (telephone: 020 7492 2382).